

CITY OF CHARITON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2011

Peak & Co., LLP
Certified Public Accountants
1370 NW 114th St., Suite 205
Clive, IA 50325

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City of Chariton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Roger Manser	Mayor	December, 2013
Raymond Meyer	Council Member	December, 2013
Dennis Bisgard	Council Member	December, 2013
Ruth Smith	Council Member	December, 2011
Vern Vogel	Council Member	December, 2011
Nels Christensen *	Manager	Indefinite
Ruth Ryun	Clerk/Treasurer	December, 2011
Verle W. Norris	Attorney	December, 2011

* - Resigned in May, 2011. Position vacant at June 30, 2011.

City of Chariton

PEAK & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS
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(515) 277-3077

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Chariton's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements referred to above include only the primary government of the City of Chariton, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for the City's legally separate component unit, which U.S. generally accepted accounting principles require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the cash basis financial position of the reporting entity of the City of Chariton as of June 30, 2011, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for the primary government of the City of Chariton as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2011 on our consideration of the City of Chariton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 13 and 31 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Chariton's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Co., LLP
Certified Public Accountants

November 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chariton, Iowa

The City of Chariton provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- ❖ Total program and general receipts of the City's governmental activities increased 5.69%, or approximately \$172,000, from fiscal year 2010 to fiscal year 2011. Bond proceeds which totaled approximately \$873,000 in fiscal year 2010 decreased to \$0 in fiscal year 2011. Total program receipts increased approximately \$95,000 and \$144,000, respectively, from fiscal year 2010 to fiscal year 2011 primarily due to a Public Assistance grant funds received as a result of the 2010 flood disaster and as a result of monies received from the railroad for the Auburn Avenue Bridge.
- ❖ Local option sales tax receipts decreased by approximately \$14,500 to \$333,521 in fiscal year 2011.
- ❖ Property tax receipts increased by 2.3%, or approximately \$35,000 from fiscal year 2010 to fiscal year 2011.
- ❖ Disbursements of the City's governmental activities decreased 38.1%, or approximately \$1,739,000, in fiscal year 2011 from fiscal year 2010.
- ❖ Public safety disbursements decreased approximately \$36,000, Public works disbursements decreased approximately \$20,000, and Capital projects disbursements decreased approximately \$1,200,000 in fiscal year 2011 compared to fiscal year 2010, due to street projects and building restoration completed in fiscal year 2010.
- ❖ Culture and recreation disbursements decreased 19.3% or approximately \$134,000 from fiscal year 2010 to fiscal year 2011.
- ❖ Disbursements for Community and economic development decreased 42.0% from approximately \$69,000 in fiscal year 2010 to approximately \$40,000 in fiscal year 2011. This decrease was primarily due to the \$63,805 from work completed in 2010 on a CDBG Housing grant.
- ❖ The City's total governmental cash basis net assets increased 16.0%, or approximately \$374,000 from June 30, 2010 to June 30, 2011.
- ❖ The City's total business type activities cash basis net assets increased by approximately \$27,000 or 6.71% from June 30, 2010 to June 30, 2011.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U. S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the sanitary sewer system, solid waste and the airport. These activities are financed primarily by user charges.

Fund Financial Statements

The City has three kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Swimming Pool, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund, such as Cemetery Perpetual Care. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

(2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the sanitary sewer system and solid waste fund, all considered to be major funds of the City. Another Enterprise Fund, the Airport Fund, is a non-major fund of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

(3) Fiduciary Funds account for assets that belong to others. The Fiduciary Fund accounts for the City's Deferred Compensation Plan.

The City is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The City excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliation between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased slightly from approximately \$2.34 million to approximately \$2.72 million. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30, 2011	Year Ended June 30, 2010
Receipts:		
Program receipts:		
Charges for service	\$ 198	\$ 197
Operating grants, contributions and restricted interest	724	661
Capital grants, contributions and restricted interest	235	120
General receipts:		
Property tax	1,305	1,290
Debt service property tax	258	238
Hotel/Motel Tax	32	22
Local option sales tax	334	348
Grants and contributions not restricted	52	40
Unrestricted interest on investments	-	20
Bond proceeds	-	873
Payment to bond agent	-	(860)
Other general receipts	30	75
Sale of assets	28	-
Total receipts	\$ 3,196	\$ 3,024

	Year Ended June 30, 2011	Year Ended June 30, 2010
Disbursements:		
Public safety	\$ 703	\$ 739
Public works	731	751
Health and social services	8	7
Culture and recreation	559	693
Community and economic development	40	69
General government	349	384
Debt service	429	715
Capital projects	<u>3</u>	<u>1,203</u>
Total disbursements	<u>2,822</u>	<u>4,561</u>
 Change in cash basis net assets, before transfers	374	(1,537)
Transfers, net	<u>-</u>	<u>(170)</u>
 Change in cash basis net assets	374	(1,707)
 Cash basis net assets beginning of year	<u>2,343</u>	<u>4,050</u>
 Cash basis net assets end of year	<u>\$2,717</u>	<u>\$2,343</u>

The City's total receipts for governmental activities increased by 5.697%, or approximately \$172,000. The total cost of all programs and services decreased by 38.1% or approximately \$1,739,000, with no new programs added this year.

The City increased the property tax rates from \$16.89739 in fiscal year 2010 to \$17.48577 in fiscal year 2011. The City increased the property tax rate to cover costs of some of the major projects and needs of the city. The City's taxable valuation for taxes levied increased by approximately 0.4% in fiscal year 2011 compared to fiscal year 2010. Based on the increases in the total assessed valuations, and increase in the levy, property tax receipts are budgeted to increase by approximately \$116,000 next year.

The cost of all governmental activities this year was approximately \$2.822 million compared to approximately \$4.561 million last year. However, as shown in the Statement of Activities and Net Assets on page 15, the amount taxpayers ultimately financed for these activities was \$1.665 million because some of the cost was paid by those who directly benefited from the programs (\$198,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$959,000). The City paid for the remaining "public benefit" portion of governmental activities with \$1.665 million in tax (some of which could only be used for certain programs) and with other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended <u>June 30, 2011</u>	Year Ended <u>June 30, 2010</u>
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$565	\$563
Solid Waste	52	40
Airport	52	50
Capital grants, contributions, and restricted interest	88	27
General receipts:		
Unrestricted interest on investments	3	13
Revenue bond proceeds	429	728
Miscellaneous	<u>12</u>	<u>6</u>
Total receipts	<u>1,201</u>	<u>1,427</u>
Disbursements:		
Sewer	1,039	1,170
Solid Waste	15	17
Airport	<u>120</u>	<u>126</u>
Total disbursements	<u>1,174</u>	<u>1,313</u>
Change in cash basis net assets before transfers	27	114
Transfers, net	<u>-</u>	<u>170</u>
Change in cash basis net assets	27	284
Cash basis net assets beginning of year	<u>402</u>	<u>118</u>
Cash basis net assets end of year	<u>\$429</u>	<u>\$402</u>

Total business type activities receipts for the fiscal year were approximately \$1.2 million compared to \$1.43 million last year. Receipts were down in fiscal year 2011 primarily due to the SRF loan received in 2010. The cash balance increased by approximately \$27,000 from the prior year.

Total disbursements for the fiscal year decreased by 10.5%, or approximately \$139,000, to a total of approximately \$1,174,000. The decrease in disbursements was due to major costs incurred for waste water system construction in 2010.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Chariton completed the year, its governmental funds reported a combined fund balance of \$2,710,116, an increase of \$382,172 from last year's total of \$2,327,944. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance decreased \$147,082 from the prior year to \$198,172. The City continues to spend more out of the General Fund in normal operating costs than what is received from property taxes, charges for services, and other miscellaneous receipts.
- ❖ The Special Revenue, Road Use Tax Fund cash balance increased by \$12,615 to \$29,631 as of June 30, 2011. Few equipment purchases were made and road repairs were limited. Monies received by this fund are used to pay normal day to day operating costs of the street department.

- ❖ The Special Revenue, Swimming Pool Fund cash balance increased \$167,280 to cash balance of \$1,558,179 as of June 30, 2011. The sales tax monies deposited to this fund are restricted by referendum for Swimming Pool construction and operation. The Swimming Pool currently has \$570,000 in Revenue Bond debt. The pool will be using local option sales tax monies to cover operating costs.
- ❖ The Special Revenue, Employee Benefits Fund cash balance increased \$21,138 to \$791 at June 30, 2011. The 2010 deficit became positive in fiscal year 2011.
- ❖ The Special Revenue, Fire Department Fund cash balance was \$284,187 at June 30, 2011. This fund was established to account for donations received which can only be spent on fire department activities.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Enterprise, Sewer Fund cash balance decreased by \$4,475 to \$129,005 as of June 30, 2011. The excess of operating revenue was \$44,430 but was offset by the net non-operating disbursements of \$48,905.
- ❖ The Enterprise, Solid Waste Fund cash balance increased by \$39,440 to \$409,494 as of June 30, 2011. This increase in cash is necessary in order to build up a reserve for potential costs which may be incurred at the old sanitary landfill.

BUDGETARY HIGHLIGHTS

This past year the City of Chariton amended the budget on December 20, 2010 by \$34,402. The amendment decreased expenditures in the budget. There was no budget amendment change in revenues.

Total disbursements were \$856,384 less than the amended budget. Actual disbursements for Public works, General government and Business type activities functions were \$184,871, \$118,167 and \$433,146 respectively, less than the budgeted amounts.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$4,029,000 in bonds and other long-term debt outstanding, compared to \$4,123,000 last year, as shown below.

Outstanding Debt Year-End (Expressed in Thousands)		
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
General obligation bonds and notes	\$2,680	\$2,820
Revenue bonds	570	725
Sewer Revenue (SRF)	<u>779</u>	<u>578</u>
Total	<u>\$4,029</u>	<u>\$4,123</u>

General Obligation Debt decreased primarily as a result of making \$140,000 of scheduled General Obligation bond payments.

Revenue bonds attributable to local options sales tax decreased by approximately \$155,000 due to principal and interest payments of \$173,543 during the fiscal year.

Sewer Revenue debt increased as a result of the net issuance of approximately \$201,000 in State Revolving Fund (SRF) bonds, which are being used for waste water projects.

The net decrease in total debt balance from fiscal year 2010 to fiscal year 2011 was approximately \$94,000.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,250,000 at June 30, 2011, is at 43% of the constitutional debt limit of \$7,555,533.

More detailed information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Chariton's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates, and fees that will be charged for various City activities. These indicators were taken into account when adopting the budget for fiscal year 2012.

The City's 100% valuation has increased from \$139 million in 2006 to \$152 million in 2011. The taxable value increased from \$81 million in 2006 to \$91 million in 2011. The 100% valuation and the taxable valuation for 2012 will remain at essentially the same levels as 2011.

The city valuations are tied to agriculture through the residential rollback. A property owner pays taxes on approximately 48.53% of the 100% assessed value of the property

The City is budgeting during a financially uncertain period within the State. State funding cuts have presented future funding issues within the City's General Fund. During fiscal year 2012, all departments funded from the General Fund are required to review their department budgets and to either cut disbursements, or offset costs through higher receipts through fines, fees, or costs for services.

The City's expected property tax receipts for fiscal year 2012 is \$1,691,566, as compared to fiscal year 2011 actual tax receipts of \$1,575,441, an increase of \$116,125.

The City's budgeted total revenues for fiscal year 2012 are \$5,332,878 as opposed to fiscal year 2011 actual revenues of \$4,398,319, an increase of \$934,559.

The City's expected disbursements for fiscal year 2012 is \$5,371,448, as opposed to fiscal 2011 year actual disbursements of \$3,997,433.

The City is reviewing the budget to reduce deficits.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ruth A. Ryun, City Clerk, 115 South Main Street, Chariton, Iowa 50049.

Basic Financial Statements

City of Chariton

Exhibit A

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs							
Governmental activities:							
Public safety	\$ 702,715	8,544	40,010	15,102	(639,059)	-	(639,059)
Public works	731,039	45,848	577,688	124,524	17,021	-	17,021
Health and social services	7,767	-	-	-	(7,767)	-	(7,767)
Culture and recreation	559,402	132,009	66,891	95,406	(265,096)	-	(265,096)
Community and economic development	40,244	-	30,071	-	(10,173)	-	(10,173)
General government	349,164	11,893	-	-	(337,271)	-	(337,271)
Debt service	429,206	-	9,794	-	(419,412)	-	(419,412)
Capital projects	3,149	-	-	-	(3,149)	-	(3,149)
Total governmental activities	2,822,686	198,294	724,454	235,032	(1,664,906)	-	(1,664,906)
Business type activities:							
Sewer	1,039,248	564,728	-	38,099	-	(436,421)	(436,421)
Solid waste	15,392	52,261	-	-	-	36,869	36,869
Airport	120,107	52,110	-	49,520	-	(18,477)	(18,477)
Total business type activities	1,174,747	669,099	-	87,619	-	(418,029)	(418,029)
Total	\$ 3,997,433	867,393	724,454	322,651	(1,664,906)	(418,029)	(2,082,935)
General Receipts and Transfers:							
Property tax and other city tax levied for:							
General purposes					1,304,537	-	1,304,537
Debt service					258,191	-	258,191
Local option sales tax					333,521	-	333,521
Hotel/Motel tax					32,279	-	32,279
Grants and contributions not restricted to specific purposes					52,547	-	52,547
Unrestricted interest on investments					-	2,571	2,571
Revenue bond proceeds					-	429,616	429,616
Miscellaneous					29,818	12,462	42,280
Sale of assets					28,279	-	28,279
Total general receipts and transfers					2,039,172	444,649	2,483,821
Change in cash basis net assets					374,266	26,620	400,886
Cash basis net assets beginning of year					2,342,546	402,673	2,745,219
Cash basis net assets end of year					\$ 2,716,812	429,293	3,146,105
Cash Basis Net Assets							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 204,841	-	204,841
Expendable:							
Streets					29,631	-	29,631
Debt service					90,696	11,091	101,787
Other purposes					2,261,153	-	2,261,153
Unrestricted					130,491	418,202	548,693
Total cash basis net assets					\$ 2,716,812	429,293	3,146,105

See notes to financial statements.

**Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds**

As of and for the year ended June 30, 2011

	Special Revenue						Total
	General	Road Use Tax	Swimming Pool	Employee Benefits	Fire Department	Nonmajor	
Receipts:							
Property tax	\$ 854,208	-	-	428,306	-	253,826	1,536,340
Other city tax	81,716	-	333,521	7,370	-	4,365	426,972
Licenses and permits	11,893	-	-	-	-	-	11,893
Use of money and property	24,977	-	7,752	-	1,299	8,309	42,337
Intergovernmental	297,843	409,470	-	-	-	-	707,313
Charges for service	131,338	-	-	-	-	-	131,338
Miscellaneous	271,931	-	-	7,702	-	32,847	312,480
Total receipts	1,673,906	409,470	341,273	443,378	1,299	299,347	3,168,673
Disbursements:							
Operating:							
Public safety	544,296	-	-	158,086	-	-	702,382
Public works	207,041	396,855	-	126,384	-	-	730,280
Health and social services	7,767	-	-	-	-	-	7,767
Culture and recreation	476,032	-	-	83,098	-	100	559,230
Community and economic development	40,244	-	-	-	-	-	40,244
General government	287,850	-	-	54,672	-	-	342,522
Debt service	-	-	173,993	-	-	255,213	429,206
Capital projects	3,149	-	-	-	-	-	3,149
Total disbursements	1,566,379	396,855	173,993	422,240	-	255,313	2,814,780
Excess of receipts over disbursements	107,527	12,615	167,280	21,138	1,299	44,034	353,893
Other financing sources (uses):							
Sale of capital assets	28,279	-	-	-	-	-	28,279
Operating transfers in	-	-	-	-	282,888	-	282,888
Operating transfers out	(282,888)	-	-	-	-	-	(282,888)
Total other financing sources (uses)	(254,609)	-	-	-	282,888	-	28,279
Net change in cash balances	(147,082)	12,615	167,280	21,138	284,187	44,034	382,172
Cash balances beginning of year	345,824	17,016	1,390,899	(20,347)	-	594,552	2,327,944
Cash balances end of year	\$ 198,742	29,631	1,558,179	791	284,187	638,586	2,710,116
Cash Basis Fund Balances							
Nonspendable - Cemetery perpetual care	\$ -	-	-	-	-	204,841	204,841
Restricted for:							
Debt service	-	-	-	-	-	90,696	90,696
Streets	-	29,631	-	-	-	-	29,631
Other purposes	74,947	-	1,558,179	791	284,187	343,049	2,261,153
Assigned	123,795	-	-	-	-	-	123,795
Unassigned	-	-	-	-	-	-	-
Total cash basis fund balances	\$ 198,742	29,631	1,558,179	791	284,187	638,586	2,710,116

See notes to financial statements.

City of Chariton

Exhibit C

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds

As of and for the year ended June 30, 2011

Total governmental funds cash balances (page 16)	\$ 2,710,116
---------------------------------------------------------	---------------------

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the central fuel facility to individual funds. A portion of the assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets.

<u>6,696</u>

Cash basis net assets of governmental activities (page 15)	<u>\$ 2,716,812</u>
-------------------------------------------------------------------	----------------------------

Net change in cash balances (page 16)	\$ 382,172
----------------------------------------------	-------------------

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the central fuel facility to individual funds. A portion of the change in net assets of the Internal Service Fund is reported with governmental activities.

<u>(7,906)</u>

Change in cash basis net assets of governmental activities (page 15)	<u>\$ 374,266</u>
-----------------------------------------------------------------------------	--------------------------

See notes to financial statements.

City of Chariton

Exhibit D

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise Funds				Internal Service Fund
	Other Non-major Fund				
	Sewer	Solid Waste	Airport	Total	Central Fuel
Operating receipts:					
Use of money and property	\$ -	-	19,719	19,719	-
Charges for service	564,728	52,261	32,391	649,380	247,956
Total operating receipts	564,728	52,261	52,110	669,099	247,956
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	10,399
Public works	-	-	-	-	23,699
Culture and recreation	-	-	-	-	5,368
General government	-	-	-	-	208,521
Business type activities	520,298	15,392	69,991	605,681	8,168
Total operating disbursements	520,298	15,392	69,991	605,681	256,155
Excess (deficiency) of operating receipts over (under) operating disbursements	44,430	36,869	(17,881)	63,418	(8,199)
Non-operating receipts (disbursements):					
Interest on investments	-	2,571	-	2,571	-
Intergovernmental	38,099	-	49,520	87,619	-
Miscellaneous	2,060	-	10,402	12,462	-
Revenue bond proceeds	429,616	-	-	429,616	-
Debt service	(52,223)	-	-	(52,223)	-
Capital projects	(466,457)	-	(50,093)	(516,550)	-
Net non-operating receipts (disbursements)	(48,905)	2,571	9,829	(36,505)	-
Net change in cash balances	(4,475)	39,440	(8,052)	26,913	(8,199)
Cash balances beginning of year	133,480	370,054	(101,375)	402,159	15,116
Cash balances end of year	\$ 129,005	409,494	(109,427)	429,072	6,917
Cash Basis Fund Balances					
Restricted for debt service	\$ 11,091	-	-	11,091	-
Unrestricted	117,914	409,494	(109,427)	417,981	6,917
Total cash basis fund balances	\$ 129,005	409,494	(109,427)	429,072	6,917

See notes to financial statements.

City of Chariton

Exhibit E

Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds

As of and for the year ended June 30, 2011

Total enterprise funds cash balances (page 18) **\$ 429,072**

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of the
the central fuel facility to individual funds. A portion of the assets of the Internal
Service Fund are included in business type activities in the Statement of Activities
and Net Assets.

221

Cash basis net assets of business type activities (page 15) **\$ 429,293**

Net change in cash balances (page 18) **\$ 26,913**

*Amounts reported for business type activities in the Statement of Activities
and Net Assets are different because:*

The Internal Service Fund is used by management to charge the costs of
the central fuel facility to individual funds. A portion of the change in net assets
of the Internal Service Fund is reported with business type activities.

(293)

Change in cash basis net assets of business type activities (page 15) **\$ 26,620**

See notes to financial statements.

City of Chariton

Exhibit F

Statement of Changes in
Fiduciary Net Assets - Cash Basis
Fiduciary Fund

As of and for the year ended June 30, 2011

	<u>Pension Trust</u>
Additions:	
Employer contributions	\$ 24,488
Employee contributions	<u>22,862</u>
Total additions	<u>47,350</u>
Deductions:	
Benefits paid	<u>32,673</u>
Total deductions	<u>32,673</u>
Excess of additions over deductions	<u>14,677</u>
Non-operating additions (deductions):	
Change in fair value of investments	<u>151,881</u>
Total non-operating additions (deductions)	<u>151,881</u>
Net change in cash balances	166,558
Cash balances beginning of year	<u>762,221</u>
Cash balances end of year	<u>\$ 928,779</u>
Cash Basis Fund Balances	
Reserved for fiduciary fund	<u>\$ 928,779</u>
Total cash basis fund balances	<u>\$ 928,779</u>

See notes to financial statements.

City of Chariton

Notes to Financial Statements

June 30, 2011

(1) **Summary of Significant Accounting Policies**

The City of Chariton is a political subdivision of the State of Iowa located in Lucas County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Council-Manager form of government with the Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides sewer utilities and airport services for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City of Chariton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Chariton (the primary government) and exclude the City's component unit. The component unit discussed below is not included in the City's reporting entity although its operational or financial relationship with the City is significant.

Excluded Component Unit

The Chariton Municipal Waterworks was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Waterworks is governed by a three-member board appointed by the Mayor and approved by the City Council. The Waterworks' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Waterworks administrative office.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the boards of the Lucas County Assessor's Conference Board, South Central Iowa Solid Waste Commission and the Chariton Area Development Corporation.

Related Organization

The City Council members are also responsible for appointing the members of the Low Rent Housing Board, but the City's accountability for this organization does not extend beyond making the appointments.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Swimming Pool Fund is used to account for the local option sales tax collections to be used for the related costs and debt associated with the Pool.

The Employee Benefits Fund is used to account for property tax and other receipts to be used for the costs associated with providing employee benefits.

The Fire Department Fund is used to account for donations and related bank interest to be used for fire department related costs.

The City reports the following major proprietary funds:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

The City also reports the following fiduciary fund:

The Fiduciary Fund is used to account for assets held by the City in a trustee capacity. The Fiduciary Fund accounts for the City's Deferred Compensation Plan.

C. Measurement Focus and Basis of Accounting

The City of Chariton maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U. S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restricted classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the City had the following investments:

Type	Carrying Amount	Fair Value
Corporate preferred stock	\$1,400	\$1,400

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Corporate stock is not an allowable investment according to the Code of Iowa.

In addition, the City has Deferred Compensation Plan investments with a fair value of \$928,779 at June 30, 2011 that is not subject to risk categorization. At June 30, 2011 plan assets consisted entirely of mutual funds.

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds and notes, local option sales and services tax revenue refunding bonds, and sewer revenue bonds are as follows:

Year Ended June 30,	General Obligation Bonds and Notes		Local Option Sales and Services Tax Revenue Refunding Bonds		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 185,000	\$ 111,007	\$ 160,000	\$ 15,675	\$ 30,000	\$ 23,370	\$ 375,000	\$ 150,052
2013	185,000	104,318	160,000	11,915	31,000	22,470	376,000	138,703
2014	195,000	97,591	165,000	7,755	32,000	21,540	392,000	126,886
2015	195,000	90,220	85,000	2,805	33,000	20,580	313,000	113,605
2016	205,000	82,615	-	-	34,000	19,590	239,000	102,205
2017-2021	1,175,000	277,597	-	-	190,000	81,750	1,365,000	359,347
2022-2026	540,000	36,542	-	-	223,000	51,360	763,000	87,902
2027-2030	-	-	-	-	206,000	15,690	206,000	15,690
Total	\$ 2,680,000	\$ 799,890	\$ 570,000	\$ 38,150	\$ 779,000	\$ 256,350	\$ 4,029,000	\$ 1,094,390

General Obligation Bonds and Notes – The City is delinquent on one general obligation note. Total principal and interest of \$5,508 was due on June 1, 2011. This amount was not paid and is still due and payable as of June 30, 2011.

Local Option Sales and Services Tax Revenue Refunding Bonds – The City has pledged future local option sales tax receipts, net of specified operating disbursements, to repay \$890,000 in local option sales and services tax revenue bonds issued in November 2009. Proceeds from the bonds provided financing for refunding a 1999 bond issue. This 1999 bond issue provided financing for costs of constructing and equipping a municipal swimming pool. The bonds are payable solely from local option sales taxes and are payable through 2015. Annual principal and interest payments on the bonds are expected to require less than 53 percent of local option sales tax receipts. The total principal and interest remaining to be paid on the bonds is \$608,150. For the current year, principal and interest paid and total local option sales tax receipts were \$173,543 and \$333,521, respectively. The bonds are payable solely from the proceeds of the local option sales tax revenues received by the City in accordance with Chapter 422B.12(3) of the Code of Iowa. The bonds are not a general obligation of the City. The debt, however, is subject to the constitutional debt limitation of the City.

The resolution providing for the issuance of the local option sales and services tax revenue refunding bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the City and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly cash transfers shall be made to the swimming pool revenue sinking account for the purpose of making the bond principal and interest payments when due.
- (c) \$89,000 shall be paid into a Swimming Pool Reserve Fund from the loan proceeds.

Sewer Revenue Bonds (Series 2009-A) – On January 13, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (trustee) for the issuance of \$808,000 of wastewater revenue bonds with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater system. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. An initiation fee of 1% of the authorized borrowing for the wastewater revenue bonds was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee was withheld in fiscal year 2010 by the bank from the first proceeds of the wastewater revenue bonds drawn down by the City.

The City has pledged future customer wastewater customer receipts, net of specified operating disbursements, to repay \$808,000 in wastewater revenue bonds issued in 2010. The bonds are payable solely from wastewater customer net receipts and are payable through 2030. Annual principal and interest payment on the bonds are expected to require more than 100 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,035,350. For the current year, principal and interest paid and total customer net receipts were \$50,203 and \$44,430, respectively.

The resolutions providing for the issuance of the wastewater revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the City and the bond holders hold a lien on the future earnings of the funds.
- (b) The City shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 110% of the principal and interest of all outstanding bonds and notes due in the fiscal year.
- (c) Monthly transfers of 1/6 of the installment of interest next due and 1/12 of installment principal due shall be made to a wastewater revenue bond and interest sinking account. Monies in this fund are to be used solely for the purpose of paying principal and interest on the bonds.

- (d) All funds remaining after payment of all maintenance and operating expenses and the transfers to the restricted account noted above can be used to pay for extraordinary repairs or replacements to the water system, may be used to pay or redeem any bonds, and then can be used for any lawful purpose.

The City's net revenues for the year ended June 30, 2011 were less than the required 110% of bond principal and interest falling due during the year.

Sewer Revenue Bonds (Series 2009-B) – On January 13, 2010, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and the Wells Fargo Bank Iowa, N.A. (trustee) for the issuance of \$200,000 of wastewater revenue bonds with interest at 3.00% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa for the purpose of paying the costs of construction, improvement and extensions to the municipal wastewater system. The funds were drawn down by the City from the Trustee upon request to reimburse the City for costs as they were incurred. At June 30, 2010, the City had drawn down all of the \$200,000 amount authorized. During fiscal year 2011, this loan was forgiven pursuant to the provisions of the American Recovery and Reinvestment Act. In the current year, no principal and interest payments were made on this bond.

The balance of this loan is \$0 as of June 30, 2011.

(4) Operating Lease Agreements

The City is leasing a copy machine for \$150 per month. Future required payments consist of \$1,350 due during the year ended June 30, 2012, at which time the operating lease will expire.

Total rent expense during the fiscal year on this agreement was \$1,800.

(5) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$75,126, \$74,311 and \$67,877, respectively, equal to the required contributions for each year.

(6) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 21 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you go basis. The most recent active member monthly premiums for the City and plan members are \$600.05 for single coverage, \$1,228.91 for employee/spouse coverage, \$1,135.90 for employee/children coverage, and \$1,841.56 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$245,268 and plan members eligible for benefits contributed \$42,594 to the plan.

(7) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation, overtime, holiday and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, overtime, holiday and sick leave termination payments payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation, overtime and holiday	\$ 104,845
Sick leave	<u>155,163</u>
Total	<u>\$ 260,008</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

(8) **Deferred Compensation Plan**

The City offers its employees a deferred compensation plan created in accordance with the provisions of Internal Revenue Code Section 457. The plan, available to the police department and the City Manager, allows those employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are, until made available to the employee or other beneficiary, solely the property and rights of the City; without being restricted to the provision of benefits under the plan, subject only to the claims of the City's general creditors. Employees rights under the plan are equal to those of general creditors of the City in an amounts equal to the fair value of the deferred account for each employee.

The financial position and changes in financial position of the deferred compensation plan are presented in the Statement of Changes in Fiduciary Net Assets- Cash Basis Fiduciary Fund. The plan assets are invested in mutual funds and are recorded at fair value. The fair value consists of the net asset value of mutual fund investments determined using market prices as of the close of regular trading on the New York Stock Exchange. The net asset value as of June 30, 2011 is \$928,779. Plan contributions for the year ended June 30, 2011 were \$47,350. Plan contributions and deductions are recorded on the cash basis of accounting.

(9) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue: Fire Department	General	\$ 282,888
Total		<u>\$ 282,888</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) Risk Management

The City of Chariton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Deficit Fund Balance

At June 30, 2011, the City had deficit balances as follows:

<u>Fund</u>	<u>Amount</u>
Enterprise, Airport Fund	\$ 109,427
Special Revenue, Donations Fund	9,674

The Enterprise, Airport Fund deficit occurred because the City is unable to generate sufficient income from the airport operation to operate the airport. The City has no plans to eliminate this deficit.

The Special Revenue, Donations Fund deficit occurred because some receipts promised to the City were not received by the City. This deficit should be eliminated through subsequent donations received, and transfers from the General Fund.

(12) Contingency

The City participates in a number of Federal and State grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(13) Commitments

The City has received notification that they have been awarded grants from the State of Iowa Community Development Block Grant program and the Iowa Department of Transportation for housing and bridge replacement. The total amount of these grant awards is over \$1.2 million. The City currently is, or will be, incurring costs in relation to these projects.

Through a consent agreement with the Environmental Protection Agency (EPA), the City is obligated to pay the EPA \$15,150 over the next two fiscal years. The amount and payment dates are based on an agreement negotiated between the City and the EPA.

The City has authorized the Library to loan \$110,000 to the Enterprise, Sewer Fund. It is anticipated that this borrowing will occur in fiscal year 2012.

(14) Subsequent Events

The City will enter into a lease agreement for \$173,212 for the purchase of a street sweeper. It is anticipated that this street sweeper will be received during fiscal year 2012, at which time the lease agreement will be signed.

The City has evaluated subsequent events through November 7, 2011, which is the date that the financial statements were available to be issued.

(15) **Fund Balance**

The City's restricted fund balance in the General Fund as of June 30, 2011 consists of the following:

<u>Purpose</u>	<u>Amount</u>
Resource Enhancement and Protection	\$ 55,410
Street Projects	7,009
Community Center	10,075
Library Donations	<u>2,453</u>
	<u>\$ 74,947</u>

The City's assigned fund balance of \$123,795 in the General Fund as of June 30, 2011 consists of funds assigned for the library, cemetery, park and recycling purposes. As of June 30, 2011, the City has assigned more funds than they have available. As a result, the City is unable to determine how much of the \$123,795 available assigned fund balance should be allocated to the various programs.

(16) **Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of this fund type reclassification is to eliminate the Special Revenue, Emergency Fund and reclassify these amounts into the General Fund for financial statement purposes. The effect of this reclassification has no effect on the beginning balances in either fund.

Required Supplementary Information

City of Chariton

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 1,536,340	-	-	1,536,340	1,522,762	1,522,762	13,578
Other city tax	426,972	-	-	426,972	412,179	412,179	14,793
Licenses and permits	11,893	-	-	11,893	26,850	26,850	(14,957)
Use of money and property	42,337	-	-	42,337	140,000	140,000	(75,373)
Intergovernmental	707,313	22,290	-	729,603	393,278	393,278	401,654
Charges for service	131,338	897,336	247,956	1,276,630	1,282,300	1,282,300	(501,582)
Miscellaneous	312,480	12,462	-	324,942	750,000	750,000	(425,058)
Total receipts	3,168,673	1,019,707	247,956	3,940,424	4,527,369	4,527,369	(586,945)
Disbursements:							
Public safety	702,382	10,399	10,399	702,382	721,809	721,809	19,427
Public works	730,280	23,699	23,699	730,280	915,151	915,151	184,871
Health and social services	7,767	-	-	7,767	8,900	8,900	1,133
Culture and recreation	559,230	5,368	5,368	559,230	530,911	601,009	41,779
Community and economic development	40,244	-	-	40,244	14,000	46,000	5,756
General government	342,522	208,521	208,521	342,522	597,189	460,689	118,167
Debt service	429,206	-	-	429,206	434,460	434,460	5,254
Capital projects	3,149	-	-	3,149	50,000	50,000	46,851
Business type activities	-	1,182,622	8,168	1,174,454	1,607,600	1,607,600	433,146
Total disbursements	2,814,780	1,430,609	256,155	3,989,234	4,880,020	4,845,618	856,384
Excess (deficiency) of receipts over (under) disbursements	353,893	(410,902)	(8,199)	(48,810)	(352,651)	(318,249)	269,439
Other financing sources (uses), net	28,279	429,616	-	457,895	325,000	325,000	132,895
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	382,172	18,714	(8,199)	409,085	(27,651)	6,751	402,334
Balances beginning of year	2,327,944	417,275	15,116	2,730,103	2,696,387	2,696,387	33,716
Balances end of year	\$ 2,710,116	435,989	6,917	3,139,188	2,668,736	2,703,138	436,050

See accompanying independent auditor's report.

City of Chariton

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2011

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$34,402. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Chariton

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue			
	Revolving Loan Fund	Section 8 Housing	CDBG Housing	Donations
Receipts:				
Property tax	\$ -	-	-	-
Other city tax	-	-	-	-
Use of money and property	1,392	1,179	-	-
Miscellaneous	27,500	-	-	-
Total receipts	28,892	1,179	-	-
Disbursements:				
Operating:				
Culture and recreation	-	-	-	-
Debt service	-	-	-	-
Total disbursements	-	-	-	-
Net change in cash balances	28,892	1,179	-	-
Cash balances beginning of year	99,845	87,123	14,824	(9,674)
Cash balances end of year	\$ 128,737	88,302	14,824	(9,674)
Cash Basis Fund Balances				
Nonspendable - Cemetery perpetual care	\$ -	-	-	-
Restricted for debt service	-	-	-	-
Restricted for other purposes	128,737	88,302	14,824	(9,674)
Total cash basis fund balances	\$ 128,737	88,302	14,824	(9,674)

See accompanying independent auditor's report.

Schedule 1

			<u>Debt Service</u>	<u>Permanent</u>	
<u>Library Endowment</u>	<u>Historic Preservation</u>	<u>Special Assessment</u>	<u>Debt Service</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
-	-	-	253,826	-	253,826
-	-	-	4,365	-	4,365
5,728	10	-	-	-	8,309
-	790	-	912	3,645	32,847
5,728	800	-	259,103	3,645	299,347
-	100	-	-	-	100
-	-	-	255,213	-	255,213
-	100	-	255,213	-	255,313
5,728	700	-	3,890	3,645	44,034
107,485	3,215	3,732	86,806	201,196	594,552
113,213	3,915	3,732	90,696	204,841	638,586
-	-	-	-	204,841	204,841
-	-	-	90,696	-	90,696
113,213	3,915	3,732	-	-	343,049
113,213	3,915	3,732	90,696	204,841	638,586

City of Chariton

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Principal and Interest Due and Unpaid
General Obligation Bonds and Notes:									
Economic Development Note	June 1, 2004	4.93%	\$ 50,000	20,000	-	-	20,000	508	5,508
Corporate Purpose and Refunding	September 15, 2008	3.00-4.50%	2,995,000	2,800,000	-	140,000	2,660,000	114,256	-
Total				<u>\$ 2,820,000</u>	<u>-</u>	<u>140,000</u>	<u>2,680,000</u>	<u>114,764</u>	<u>5,508</u>
Revenue Bonds:									
Local Option Sales and Services Tax Revenue Refunding Bonds	November 1, 2009	1.60-3.30%	\$ 890,000	725,000	-	155,000	570,000	18,543	-
Sewer Revenue:									
Sewer Revenue Bonds	January 13, 2010	3.00%	\$ 808,000	378,384	429,616	29,000	779,000	21,203	-
Sewer Revenue Bonds *	January 13, 2010	3.00%	200,000	200,000	-	200,000	-	-	-
Total				<u>\$ 578,384</u>	<u>429,616</u>	<u>229,000</u>	<u>779,000</u>	<u>21,203</u>	<u>-</u>

* - Loan forgiven pursuant to the provisions of the American Recovery and Reinvestment Act.

See accompanying independent auditor's report.

City of Chariton

Schedule 3

Bond and Note Maturities

June 30, 2011

Year Ending June 30,	General Obligation Bonds and Notes				
	Economic		Corporate Purpose		Total
	Development Note		and Refunding		
	Issued June 1, 2004		Issued September 15, 2008		
	Interest Rates	Amount	Interest Rates	Amount	
2012	4.93%	\$ 10,000	3.40%	\$ 175,000	\$ 185,000
2013	4.93%	5,000	3.60%	180,000	185,000
2014	4.93%	5,000	3.75%	190,000	195,000
2015	-	-	3.90%	195,000	195,000
2016	-	-	4.00%	205,000	205,000
2017	-	-	4.10%	215,000	215,000
2018	-	-	4.20%	225,000	225,000
2019	-	-	4.30%	235,000	235,000
2020	-	-	4.35%	245,000	245,000
2021	-	-	4.40%	255,000	255,000
2022	-	-	4.45%	265,000	265,000
2023	-	-	4.50%	275,000	275,000
		<u>\$ 20,000</u>		<u>\$ 2,660,000</u>	<u>\$ 2,680,000</u>

Year Ending June 30,	Revenue Bonds		Sewer Revenue Bonds	
	Local Option Sales and Services Tax Revenue Refunding Bonds		Sewer Revenue Bonds	
	Issued November 1, 2009		Issued January 13, 2010	
	Interest Rates	Amount	Interest Rates	Amount
2012	2.35%	\$ 160,000	3.00%	\$ 30,000
2013	2.60%	160,000	3.00%	31,000
2014	3.00%	165,000	3.00%	32,000
2015	3.30%	85,000	3.00%	33,000
2016	-	-	3.00%	34,000
2017	-	-	3.00%	36,000
2018	-	-	3.00%	37,000
2019	-	-	3.00%	38,000
2020	-	-	3.00%	39,000
2021	-	-	3.00%	40,000
2022	-	-	3.00%	42,000
2023	-	-	3.00%	43,000
2024	-	-	3.00%	45,000
2025	-	-	3.00%	46,000
2026	-	-	3.00%	47,000
2027	-	-	3.00%	49,000
2028	-	-	3.00%	51,000
2029	-	-	3.00%	52,000
2030	-	-	3.00%	54,000
		<u>\$ 570,000</u>		<u>\$ 779,000</u>

City of Chariton

Schedule 4

Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds

For the Last Eight Years

	2011	2010	2009	2008	2007	2006	2005	2004
Receipts:								
Property tax	\$ 1,536,340	1,527,995	1,449,823	1,357,277	1,324,958	1,245,388	1,248,279	1,281,166
Tax increment financing	-	-	-	90,766	88,363	84,970	70,141	53,680
Other city tax	426,972	392,880	348,465	526,678	520,969	505,068	427,265	470,216
Licenses and permits	11,893	11,543	8,351	10,869	9,668	14,346	11,410	8,648
Use of money and property	42,337	56,569	81,874	116,875	313,763	231,890	64,000	150,407
Intergovernmental	707,313	720,783	1,419,371	723,369	509,582	450,401	455,901	668,993
Charges for service	131,338	117,015	123,850	101,806	74,262	116,669	128,300	176,839
Special assessments	-	3,732	2,221	22,658	11,033	15,771	15,688	26,119
Miscellaneous	312,480	181,044	295,759	172,556	638,795	347,416	1,671,264	127,176
Total	\$ 3,168,673	3,011,561	3,729,714	3,122,854	3,491,393	3,011,919	4,092,248	2,963,244
Disbursements:								
Operating:								
Public safety	\$ 702,382	738,608	1,027,649	756,584	670,353	608,609	590,405	613,188
Public works	730,280	750,617	859,241	975,900	762,208	779,619	832,039	591,061
Health and social services	7,767	7,400	11,060	7,270	7,683	6,030	9,036	7,457
Culture and recreation	559,230	693,033	539,897	433,780	537,248	467,570	584,598	451,533
Community and economic development	40,244	69,010	10,466	8,200	7,203	17,125	43,249	208,933
General government	342,522	383,818	362,634	339,543	358,532	302,087	350,925	330,853
Debt service	429,206	714,969	775,922	581,670	576,161	581,082	510,916	498,754
Capital projects	3,149	1,203,196	2,192,964	737,284	1,092,852	278,495	-	21
Non-program	-	-	-	-	55,231	293,984	91,158	50,820
Total	\$ 2,814,780	4,560,651	5,779,833	3,840,231	4,067,471	3,334,601	3,012,326	2,752,620

See accompanying independent auditor's report.

PEAK & CO., LLP
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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Chariton, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 7, 2011. Our report expressed unqualified opinions on the primary government financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Chariton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Chariton's internal control over financial reporting. Accordingly, we do not express our opinion on the effectiveness of the City of Chariton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Chariton's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-C-11, I-D-11, I-E-11 and I-F-11 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Chariton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and other matters, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Chariton's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Chariton's responses and, accordingly, we do not express an opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Chariton and other parties to whom the City of Chariton may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Chariton during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Co., LLP
Certified Public Accountants

November 7, 2011

City of Chariton
Schedule of Findings
Year Ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits, the posting of the cash receipts to the accounting records and the bank reconciliations are not properly segregated among office and administrative personnel.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We have implemented new procedures beginning with the current fiscal year. Our new City Manager will also be involved in the review which should address these concerns.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-11 Receipts - Instances were noted where the City and the Library did not always deposit receipts timely and on an intact basis. We noted instances in which receipts were held several days to several months before they were deposited. To help ensure security and accountability over receipts, all receipts should be deposited timely and on an intact basis.

No documentation regarding an initial record of receipt could be located for some monies collected by the police department and the pool.

Recommendation - The City and the Library should implement procedures to ensure all receipts are deposited intact and on a timely basis. An initial record of receipt should be documented for all monies collected by the police department and the pool.

Response - We are depositing a minimum of once per week, more if it is appropriate.

The police department was maintaining an initial record of receipt, but they accidentally deleted their fiscal year 2011 spreadsheet which documented this initial record.

The parks and recreation director will also ensure cash register tapes are retained for all pool collections.

Conclusion - Response accepted.

I-C-11 Non-Standard Procedures - It appears the City does not have procedures in place to address non-standard standard activities. For example -

- A) The City did not timely file a sales tax claim form with the State of Iowa. As a result, the State of Iowa did not pay \$4,743 to the City because the claim form was not timely filed.

City of Chariton

Schedule of Findings

Year Ended June 30, 2011

- B) The City appeared to claim too much in reimbursement from the Federal Aviation Administration (FAA). There does not appear to be any procedures in place to ensure the claim forms filed with the FAA reconcile with the City's accounting records.
- C) As of July, 2011, the City had not collected the farm rent due to the City. This rent was due in the spring of 2011. City personnel were apparently unaware of this situation until we brought it to their attention.
- D) The State of Iowa owes over \$40,000 to the City in relation to a Community Development Block Grant (CDBG) program. The costs related to the CDBG program were incurred by the City in fiscal year 2010. However, as of June 30, 2011, the City had not even filed a claim with the State of Iowa in order to obtain reimbursement for these costs.

Recommendation - The City implement procedures to ensure non-standard City activities are identified and that action is taken as necessary. Specifically, the City should follow-up on all of the above issues.

Response - We will follow-up on all of the above issues. We will also implement procedures to ensure all non-standard City activities are properly handled in the future.

Conclusion - Response accepted.

- I-D-11 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City Council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Due to the technical nature of these requirements, management does not prepare this information, which is a common situation in all small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare OCBOA financial statements.

Response - This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with the OCBOA requirements.

Conclusion - Response accepted.

- I-E-11 Emergency Levy - The balance in the Emergency Fund was not transferred to the General Fund, as required by Chapter 384.8 of the Code of Iowa.

Recommendation - The City transfer the balance in the Emergency Fund to the General Fund as required by the Code of Iowa.

Response - This was implemented in July, 2011.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2011

I-F-11 Receipt Classification - During the audit, we noted that some receipts were posted to the incorrect account code on the City's accounting records.

Recommendation - The City should implement procedures to ensure receipts are posted to the correct account code on the City's accounting records.

Response - We will implement this recommendation.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Chariton
Schedule of Findings
Year Ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 did not exceed the amounts budgeted.
- II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-11 Business Transactions - No business transactions between the City and City officials or employees were noted.
- II-E-11 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-11 Deposits and Investments - The Debt Service Fund and the Enterprise, Sewer Fund does not receive bank interest, even though this is required by Chapter 12C.9 of the Code of Iowa.

The City cemetery owns stock which was purchased in previous years. This is not a permissible investment in accordance with the Code of Iowa, nor with the City's investment policy.

Recommendation - The Debt Service Fund and the Enterprise, Sewer Fund should receive bank interest as required by the Code of Iowa. In addition, the City should continue its efforts to dispose of cemetery stock and reinvest in permissible investments as soon as possible.

Response - We are in the process of divesting this stock. In addition, we will also review the allocation of bank interest to the various funds.

Conclusion - Response accepted.

- II-H-11 Revenue Bonds - The City has not complied with the sewer revenue bond resolutions.

The City's sewer revenue bond resolution, Section 7, requires the "... rents, rates and other charges shall be at least sufficient . . . to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the Revenue Bond and any other obligations secured by a pledge of the net revenues falling due in the same year . . ." The City's fiscal year 2011 net sewer operating income of \$44,430 is less than 110% of the \$50,203 of sewer bond principal and interest due during fiscal year 2011.

Recommendation - In the future, the City ensure that the sewer revenue bond resolutions are met. The City should also consult with bond counsel to determine the disposition of this matter.

Response - We raised our sewer rates in fiscal year 2012. With the increase in rates, we should be in compliance with the sewer revenue bond resolutions in fiscal year 2012.

Conclusion - Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2011

- II-I-11 Financial Condition – As documented in Note 11 in the Notes to the Financial Statements, the Enterprise, Airport Fund and the Special Revenue, Donations Fund had deficit balances at June 30, 2011.

Recommendation - The City should monitor the above funds in order to eliminate these deficits.

Response – We currently have no plans to eliminate the Enterprise, Airport Fund deficit, as the airport is unable to generate enough money to break-even. The Special Revenue, Donations Fund deficit will be eliminated through transfers from the General Fund.

Conclusion - Response accepted.

- II-J-11 General Obligation Note – The City is delinquent on one general obligation note. Total principal and interest of \$5,508 was due on June 1, 2011. This amount was not paid and is still due and payable as of June 30, 2011.

Recommendation – The City implement procedures to ensure all General Obligation Note principal and interest is paid when due.

Response – Because the bank forgot to bill us, this was an oversight on our part. The amount due was paid in fiscal year 2012.

Conclusion – Response accepted.

- II-K-11 Tax Levy - The City levies a separate property tax levy for liability/property insurance, pursuant to Chapter 384.12 of the Code of Iowa. However, it appears the City has levied too much in property taxes for liability/property insurance given the cost of liability/property insurance. This Code Section only allows the City to levy an amount necessary to fund the costs of liability/property insurance. As a result, it would appear that the City is not allowed to levy excess taxes under the liability/property insurance Code Section in order to fund the general operations of the City.

Recommendation – The City review these Code Sections to ensure compliance with the Code of Iowa requirements. In addition, the City needs to consult with legal counsel to determine an appropriate course of action in relation to the above issue.

Response – We will take this into account in the future.

Conclusion – Response accepted.

- II-L-11 Economic Development – The City pays its hotel-motel tax collections to the Lucas County Tourism (LCT), which is a part of the Chariton Chamber and Development Corporation. The payments made to the LCT are for the promotion of tourism, and ultimately more economic development in the area. Insufficient support was provided to document the public purpose served by the hotel-motel tax disbursements paid to LCT, as required by Chapter 15A of the Code of Iowa.

Recommendation – The Council should evaluate and document the public purpose served by the expenditure before authorizing further payments and should require the benefiting organization to provide documentation to the City of how these funds were used to accomplish economic development activities.

Response – We will review this and take appropriate action.

Conclusion – Response accepted.

City of Chariton

Schedule of Findings

Year Ended June 30, 2011

II-M-11 Old Outstanding Checks - The City has not turned over old outstanding checks to the State Treasurer's Office as required by Chapter 556.11 of the Code of Iowa.

Recommendation - The City turn over old outstanding checks, as required by the Code of Iowa, to the State Treasurer's Office.

Response - We will implement this recommendation.

Conclusion - Response accepted.

II-N-11 Payroll - The longevity pay amount paid to non-union employees was not approved by the City Council.

Based on the union agreement, union employees were overpaid during the year ended June 30, 2011.

Recommendation - The City implement procedures to ensure all pay is approved by the City Council and that union employees are paid pursuant to the union agreement. The City should also consult with legal counsel regarding the proper disposition of these matters.

Response - Longevity pay for non-union employees is the same for union employees.

We paid the union employees based on what was negotiated. However, the pay as negotiated with the union employees appears to conflict with what was written in the union agreement.

Conclusion - Response accepted.